British Columbia

Municipal Pension Plan

Annual Report

Municipal Pension Board

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The Honourable Garde B. Gardom, Q.C.
Lieutenant-Governor
Province of British Columbia

May It Please Your Honour:
The undersigned respectfully submits the report of the business done in pursuance of the *Pension (Municipal) Act* during the fiscal year ended December 31, 1998.

Honourable Paul Ramsey
Minister of Finance and Corporate Relations

Honourable Paul Ramsey
Minister of Finance and Corporate Relations

Minister:
I have the honour to lay before you the report of the business done in pursuance of the *Pension (Municipal) Act* during the fiscal year ended December 31, 1998.

John W. Cook
Chair
Municipal Pension Board

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Message from the Board

I am pleased to present you with the Municipal Pension Plan Annual Report for the fiscal year ending December 31, 1998. On behalf of the board, I would like to welcome all new members to the Municipal Pension Plan. There are currently more than 111,000 active plan members and over 30,000 pensioners.

The year has been a very productive one, with 2,340 pensions granted, representing a 2.5 per cent increase over 1997. Purchases of service also continued at a relatively high volume, exceeding 1997's purchases by nearly 20 per cent.

The Municipal Pension Board continues to seek high standards in the Superannuation Commission's service delivery to plan members and pensioners. The implementation of the commission's new Integrated Pension Administration System in the fall of 1999 is key to further streamlining of pension processing and service improvement. During 1998, the commission has also worked towards readying critical computer systems for the provincial government's Year 2000 effort.

The Municipal Pension Plan is financially sound. Net assets grew 10.9 per cent in 1998, to $12.2 billion at December 31, 1998. The plan's funding policy—embedded in legislation—provides for the long-term reduction of the unfunded actuarial liability. The most recent actuarial valuation (December 1997) showed that the unfunded liability as a percentage of employer payroll has improved, and actuarial assets on a funding basis had risen to 96 per cent of liabilities. The next actuarial valuation will be as at December 31, 2000.

Plan member communications continue to be one of the board's highest priorities. A pensioner newsletter was introduced in 1998. Also, development in 1998 continued on the public web site (open in the spring of 1999 at **pensions.gov.bc.ca**). The commission continues to develop the series of *Pensionfacts* information sheets on various topics, designed to make pension benefits more accessible to plan members.

Discussions on pension reform continued among the provincial government, the pension boards and stakeholder groups, and they made significant progress in 1998 towards their pension reform commitment. Out of those discussions new legislation—the *Public Sector Pension Plans Act*—was tabled in the legislature. (Royal assent occurred in July 1999.) The new legislation simplifies public sector pension plan administration and management, and provides an on-going mechanism for plan stakeholders—government, employers, unions and plan members—to pursue a

continues....

December 31, 1998 Municipal Pension Board Members

CHAIR
Superannuation Commission
John W. Cook

UNION OF BC MUNICIPALITIES REPRESENTATIVE
Richard Taylor

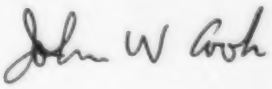
PLAN MEMBER REPRESENTATIVES
Margaret Bisal
Neil Bradbury
James Cook
Steven M. Polak

GOVERNMENT REPRESENTATIVES
John Herbert
Bruce Kennedy
Annette Wall

Message from the Board

joint trustee arrangement, should they wish a joint trustee arrangement. To ensure that you are informed about pension reform and have an opportunity to express your views, a booklet on this topic is available on the commission's public web site.

The year under review has been very successful for the pension plan, and we intend to continue our technological and administrative progress to further enhance service to our clients. We trust 1999 will be as productive.



John W. Cook
Chair

Financial and Operational Highlights

1998 Membership Profile

- 111,366 Active, 71%
- 30,288 Pensioners, 19%
- 15,472 Inactive or Vested and Deferred[1], 10%

[1] Members no longer employed but with money in the plan.

1998 Revenue

- Investment Income, 65%
- Employer Contributions, 18%
- Member Contributions, 17%

1998 Age Profile of Active Contributors

- < 40 years, 32%
- 40 – 49, 38%
- 50 – 59, 26%
- > 60, 4%

Investments as at December 31

($ billions)

	1998	1997
Market Value	$12.2	$11.0
Basic Account Market Value Rates of Return		
Annual	9.6%	13.4%
Five-year Average	10.4%	11.3%
Inflation Account Market Value Rates of Return		
Annual	9.2%	12.8%
Five-year Average	10.1%	11.2%

Latest Actuarial Valuation December 31, 1997

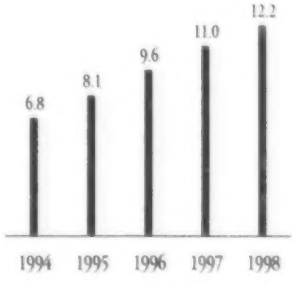
($ billions)

	Basic Pension Benefits Net Unfunded Liability	
	1997	1994
For Funding Purposes (statutory contributions)[1]	0.55	1.31
Ratio of Unfunded Liability to Covered Payroll[1]	14%	36%
Based on Accrued Benefits to December 31	0.30	1.08

[1] Assuming contributions continue at existing statutory rates

Net Assets Available for Benefits as at December 31 (1994-98)

($ billions)



Financial and Operational Highlights

Five-year Summary Statement of Changes in Net Assets Available for Benefits (unaudited)

($ thousands)

For the year ended December 31	1998	1997	1996	1995	1994
Increase in Assets					
Net Investment Income					
Total Investment Income	$ 1,066,410	$ 1,294,170	$1,300,238	$1,134,662	($ 138,986)
Investment Management Costs	(12,956)	(11,738)	(7,254)	(4,682)	(1,892)
	1,053,454	1,282,432	1,292,984	1,129,980	(140,878)
Contributions					
Members	269,599	258,307	250,105	237,170	227,969
Employers	295,578	273,589	257,144	242,989	229,590
Transfers from Other Plans	3,198	6,746	2,783	2,487	2,163
Total Increase in Assets	1,621,829	1,821,074	1,803,016	1,612,626	318,844
Decrease in Assets					
Pension Benefits	330,189	304,556	281,129	258,653	241,979
Termination Benefits	48,199	45,338	33,977	26,530	23,019
Transfers to Other Plans	1,607	3,979	676	193	332
Pensioner Group Benefits	27,126	25,209	16,048	11,953	8,612
Administration Costs	14,358	10,631	8,500	7,673	7,745
Total Decrease in Assets	421,479	389,713	340,330	305,007	281,687
Increase in Net Assets	1,200,350	1,431,361	1,462,686	1,307,619	37,157
Net Assets Available for Benefits at Beginning of Year	11,026,855	9,595,494	8,132,808	6,825,189	6,788,032
Net Assets Available for Benefits at End of Year	$12,227,205	$11,026,855	$9,595,494	$8,132,808	$6,825,189
			As a Percentage of Net Assets		
Pension Administration Costs	0.12%	0.10%	0.14%	0.09%	0.11%
Investment Management Costs	0.11%	0.11%	0.08%	0.06%	0.03%

Roles and Responsibilities

Municipal Pension Board

The Municipal Pension Board was established in 1994 to make recommendations to government regarding, among other things, the act and its regulations, changes in benefits, funding policy, contribution rates and the administrative budget of the Superannuation Commission. The board is responsible for preparation of the annual report of the plan, for reviewing and making recommendations to the ministry on investment policy and procedures, and for providing direction to the commissioner on the application of plan rules.

The board has nine members: four plan member representatives, one Union of BC Municipalities representative and three government representatives. The commissioner acts as board chair.

The board has three committees:

- Benefits Committee
- Regulations Committee, and
- Employer Contribution Rate Committee.

As well, board representatives participate on several interplan committees that deal with matters of common interest to the BC statutory pension plans (Municipal, College, Public Service and Teachers').

They are:

- Interplan Audit Committee
- Interplan Communications Committee, and
- Interplan Governance Committee.

Superannuation Commission

The Municipal Pension Plan is governed by the *Pension (Municipal) Act* and related regulations. The Superannuation Commissioner is responsible for administering the act and serves as trustee for the Municipal Pension Fund. The Municipal Pension Fund is the trust fund in which contributions accumulate and from which funds are invested to pay current and future pension benefits. In carrying out his duties, the commissioner is supported by, and acts as chief executive officer to, the Superannuation Commission, a division of the Ministry of Finance and Corporate Relations.

Office of the Chief Investment Officer

The Municipal Pension Plan investments are managed by the Office of the Chief Investment Officer (OCIO), an independent business unit operating within the Ministry of Finance and Corporate Relations. The OCIO has over $50 billion under its administration and is one of the largest institutional investors in Canada.

The Chief Investment Officer is under legislative obligation to act in the best financial interest of the beneficiaries and in accordance with the fund's investment policies. The plan's investment policies have been approved by the trustee and the Municipal Pension Board, and are reviewed regularly.

Investments

Message from the Chief Investment Officer

Markets in Review

Last year was one of the most volatile and worrisome in recent history. It began on an optimistic note as most analysts felt that Asia had weathered the worst of the currency crisis. However, by late spring, it was apparent that Asia's economic problems would be much more severe and protracted than first expected.

In mid-August, markets were caught off guard when Russia declared a moratorium on some of its debt obligations. This, combined with other events, led to a reduction in investors' risk tolerance and a drying up of capital flowing to emerging markets. Concerns about risk also affected developed markets and led to a tightening of credit conditions, falling stock prices and a reduction in liquidity. These conditions resulted in problems for some hedge funds, most notably Long-Term Capital Management (LTCM). LTCM was a major player in the derivative market and their collapse could have put the entire financial system at risk.

Fortunately, there was a dramatic reversal in the fourth quarter. The U.S. Federal Reserve arranged a bailout for LTCM and cut U.S. interest rates three times in rapid succession. This calmed investors and led to a strong rebound in stock prices. Most markets quickly recovered their losses and resumed an upward trend. Canada, however, was a notable exception, as the TSE 300 Index finished 1998 with a disappointing –1.6 percent return.

The Municipal pension fund holds a diversified portfolio and, as a result, it still ended the year with a 9.6 per cent return. Although this is below the market benchmark of 10.5 per cent, the return is still quite good, considering market conditions. In addition, the return is higher than what was earned by the majority of Canadian plans in 1998.

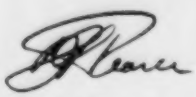
Initiatives in 1999

There are three major initiatives facing my office in the current year. These are improving risk management operations, preparing for Y2K and revising our organizational structure.

The volatility of the market last year clearly illustrates the importance of risk management operations. We are in the process of a comprehensive review of our risk management framework to ensure that it will continue to serve our clients and protect their assets. Risk management needs to be integrated into daily business practices and continuously reviewed and improved.

I am pleased to report that our internal systems and those of our major suppliers are Y2K compliant. We have done everything practical to prepare for the event, including having a contingency plan. In addition, we are examining how Y2K may affect the companies that we invest in.

In regards to our internal structure, we believe that there is a strong business case for placing investment operations at arm's length from government and ensuring that resource decisions are made in the best interest of the funds under administration. We are hopeful that such changes will be made as part of the pension reform process.



Doug Pearce
Chief Investment Officer
Office of the Chief Investment Officer
Ministry of Finance and Corporate Relations

Investments

Approved Investment Asset Mix

The following asset mix policy range was approved by the trustee and the Minister of Finance and Corporate Relations and was effective during 1998.

	Market Value	
Asset Class	**Lower Limit**	**Upper Limit**
Debt	30%	50%
Short-term	0%	30%
Bonds	20%	50%
Mortgages	0%	10%
Equity	40%	70%
Canadian Stocks	20%	50%
U.S. Stocks	0%	14%
International Stocks	0%	14%
Real Estate	0%	10%
Private Placements	0%	2%

Strategic and short-term asset allocation targets are set within these ranges. Short-term for asset mix purposes includes government bonds with one- to five-year terms and money market funds.

Investment Portfolio

Investments Held as at December 31, 1998

Province of B.C. Pooled Investment Portfolio Units	**Market Value**	**Asset Mix % Market Value**
Money Market	$ 251,039,885	2%
Canadian Bonds		
Government	3,740,802,026	31%
Corporate	331,073,507	3%
Short-term (1-5 years)	436,567,447	4%
Canadian Equities		
Indexed	2,936,707,148	24%
Actively Managed	1,096,142,986	9%
U.S. Equities		
Indexed	731,969,937	6%
Actively Managed	353,380,879	3%
International Equities		
Asia	45,948,238	–
Europe	382,102,647	3%
Europe, Australia and the Far East	736,943,697	6%
Real Estate	511,170,777	4%
Mortgages	365,418,154	3%
Private Placements	115,626,946	1%
Total Pooled Portfolios	$12,034,894,274	99%
Canadian Real Return Bonds	$ 170,919,641	1%
TOTAL INVESTMENTS	$12,205,813,915	100%
1997 Comparison	$11,000,625,246	

1998 Investment Holdings (Market Value)

($ millions)

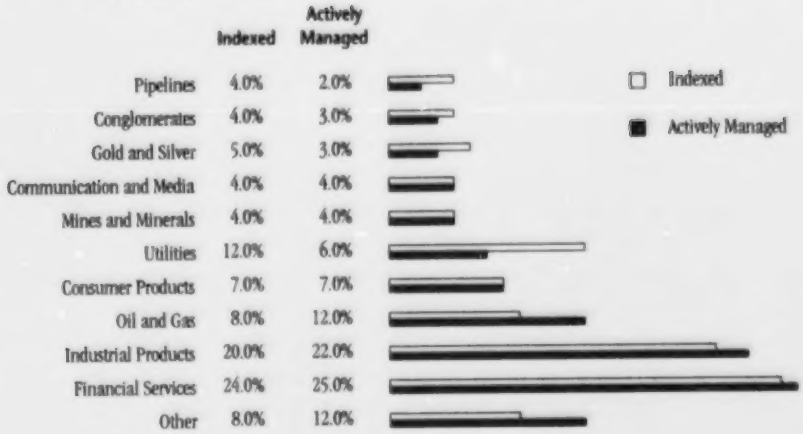
- Canadian Long-term Bonds, $4,243 (35%)
- Canadian Equities, $4,033 (33%)
- International Equities, $1,165 (9%)
- U.S. Equities, $1,085 (9%)
- Real Estate, Mortgages, Private Placements, $992 (8%)
- Short-term, $688 (6%)

Investments

Canadian Equities (Market Value)

- Indexed, 73%
- Actively Managed, 27%

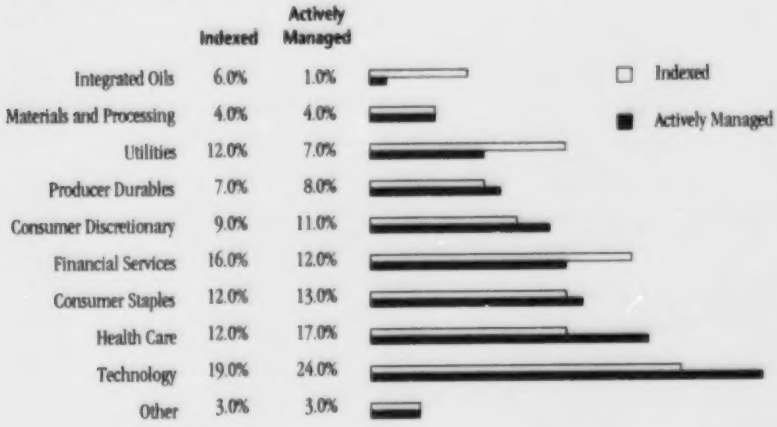
Canadian Equities by Sector



U.S. Equities (Market Value)

- Indexed, 67%
- Actively Managed, 33%

U.S. Equities by Sector



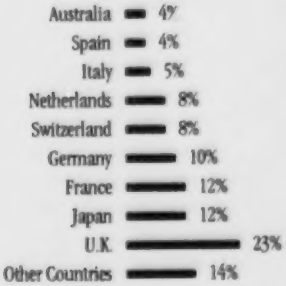
Real Estate by Type

- Office, 32%
- Residential, 29%
- Industrial, 18%
- Retail, 14%
- Mixed-use, 7%

Real Estate by Location

- Ontario, 49%
- B.C., 30%
- Alberta and Saskatchewan, 19%
- Nova Scotia, 2%

International Equities



Investments

Investment Performance

Market Value Rates of Return for the Year Ended December 31, 1998

	Basic Account	Inflation Adjustment Account	Performance Benchmarks	
Five-year Average Rates				
1998	10.4%	10.1%	10.8%	
1997 Comparison	11.3%	11.2%	11.5%	
Annual Rates				
1998	9.6%	9.2%	10.5%	
1997 Comparison	13.4%	12.8%	13.6%	
1998 Annual Rates by Investment Category			**1998 Performance Benchmark Indices**	
Short-term				
Money Market	5.1%	5.1%	4.7%	SCM 91-day Treasury Bills
Short-term Bonds	6.7%	6.7%	6.6%	RBCB Short-term Government Bonds
Bonds				
Government	9.5%	9.5%	9.4%	SCM Government Universe
Corporate	7.5%	–	8.1%	SCM Corporate Universe
Real Return	–	4.2%	–	
Canadian Equities				
Actively Managed	(2.5%)	(2.5%)	(1.6%)	TSE 300
Indexed				
TSE 300	(0.4%)	(0.4%)	(1.6%)	TSE 300
U.S. Equities				
Actively Managed	32.6%	32.6%	36.3%	R 1000
Indexed	38.4%	38.4%	38.2%	S&P 500
International Equities				
Asia	9.5%	9.5%	10.0%	MSCI Pacific Basin
Europe	35.9%	35.9%	37.9%	MSCI Europe
Europe, Australia and the Far East	24.6%	24.6%	28.8%	MSCI EAFE
Real Estate	12.7%	12.7%	16.1%	R Canadian Property
Mortgages				
Fixed-term	8.0%	8.0%	7.8%	SCM Short-term Bonds + 1%
Construction	7.4%	7.4%	6.2%	SCM Treasury Bills + 1%

Performance Benchmark Indices Abbreviations:
SCM = Scotia Capital
RBCB = RBC Barra
MSCI = Morgan Stanley Capital International
S&P = Standard and Poor's
R = Russell
TSE = Toronto Stock Exchange

Source: Office of the Chief Investment Officer, Ministry of Finance and Corporate Relations

Net Earned Rate of the Fund

Year	%
1989	10.7
1990	10.3
1991	10.3
1992	8.0
1993	7.3
1994 [1]	10.2
1995	11.1
1996	10.5
1997	11.3
1998	10.4

[1] Effective 1994, rates of return are based on five-year average market value rates calculated by the Office of the Chief Investment Officer. Prior to 1994, rates were calculated on an adjusted cost basis.

Actuarial Valuation/Plan Funding

The adequacy of the contribution rates for funding the pension plan is assessed by an independent actuary every three years. The last valuation viewed the plan as it stood as at December 31, 1997. The next valuation will be done as at December 31, 2000.

Plan legislation governs how the plan is to be funded. The plan is funded by both employee and employer contributions, but should a contribution rate increase be required, the funding policy requires that it be made to employer contributions only.

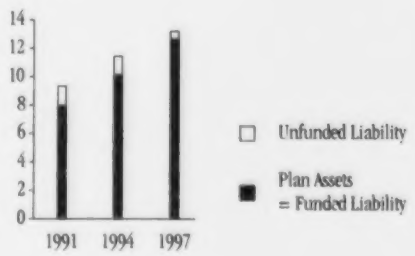
No statutory contribution rate increase will occur in the near future as long as the fund's relative financial health continues to improve, based on the key indicator—the unfunded liability as a percentage of the membership payroll covered by the plan.

The unfunded liability decreased as a percentage of covered payroll over the last two valuations, and in 1997 it shrank to 14 per cent of payroll. As a result, no statutory contribution rate changes resulted from the valuation. The indicator will be examined again as at December 31, 2000.

To assess funding, the valuation considers both benefits actually earned to date (accrued benefits), as well as benefits likely to be earned by a member for future service.

Based on the 1997 valuation, actuarial assets on a funding basis represent 96 per cent of the unfunded liabilities of the plan.

Total Basic Benefit Liability for Funding Purposes
($ billions)



Latest Actuarial Valuation December 31, 1997
($ billions)

	Basic Pension Benefits Net Unfunded Liability		
	1997	1994	1991
For Funding Purposes (statutory contributions) [1]	0.55	1.31	1.41
Ratio of Unfunded Liability to Covered Payroll [1]	14%	36%	50%
Based on Accrued Benefits to December 31	0.30	1.08	1.06

[1] Assuming contributions continue at existing statutory rates

Employers and Plan Membership

The Municipal Pension Plan is a defined benefit plan open to all eligible employees of a municipality, school district, regional college or other employer to which the *Pension (Municipal) Act* applies. Once an employee elects or qualifies to contribute, contributions must continue as long as the employee remains with the employer, or until 35 years of pensionable service have accrued.

Municipal Pension Plan Employers

	Number of Employers
Cities, Districts, Towns, Villages and Regional Districts	181
Hospitals and Health Boards	138
Long-term Care Facilities	94
School Districts	57
Colleges	23
Miscellaneous	136
Total	629

Active Contributors by Employer Group

	Contributors per Group
Cities, Districts, Towns, Villages and Regional Districts	27,058
Hospitals and Health Boards	52,782
Long-term Care Facilities	5,210
School Districts	18,653
Colleges	3,912
Miscellaneous	3,751
Total	111,366

Member Services

Contributors and Contributions

The number of contributors and the amount of contribution revenue continued to grow in 1998. Active membership increased 3 per cent. Also, the last of three annual legislated increases to employer contribution rates for Group 4 employees occurred on July 1, 1997. Group 4 (females other than fire or police) rates increased 0.2 per cent of salaries each of the last three years with final full year impact on employer contributions in 1998.

Contributors are defined as:

- active—those who are currently contributing; receiving benefits from an approved salary continuance plan; or are on a leave of absence. (Note: historical statistics have been restated to include leaves as active, rather than inactive contributors.)
- vested and deferred—those who have terminated employment, and are eligible for a future pension. The number of vested and deferred members from 1997 onward has been adjusted to include inactive members who are active in another BC Family of Plans pension plan and likely to have a vested entitlement on a combined plan basis.
- inactive—those who have terminated employment, have contribution balances on record, and are not currently eligible for a future pension.

Number of Contributors

	Active	Inactive	Vested and Deferred	Total
1994	99,108	13,488	2,274	114,870
1995	102,213	14,396	2,310	118,919
1996	106,327	13,499	2,152	121,978
1997	108,093	11,157	4,354	123,604
1998	111,366	10,906	4,566	126,838

1998 Contributor Profile

Active, 88%

Inactive, 9%

Vested and Deferred, 3%

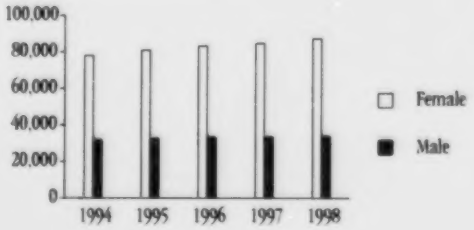
1998 Active Contributor Profile

Female, 76,843 (69%)

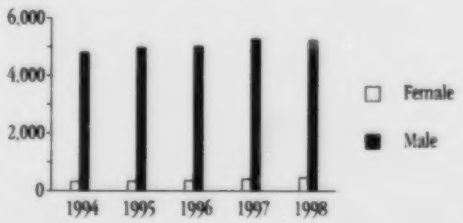
Male, 34,523 (31%)

Contributors

(Normal Retirement Age 65)



(Normal Retirement Age 60)



Member Services

Employer Contribution Rates by Group and Age

Group	< 50 Years	> 50 Years	< 45 Years	> 45 Years
1	4.9%	9.8%	n/a	n/a
2	n/a	n/a	8.5%	17.0%
3	n/a	n/a	5.6%	11.2%
4	5.4%	10.8%	n/a	n/a

Active Contributors by Employer Group

	Group 1	Group 2	Group 3	Group 4	Total
Cities, Districts, Towns and Villages	11,657	5,383	22	7,303	24,365
Regional Districts	1,707	30	1	955	2,693
Hospitals and Health Boards	7,371	0	3	45,408	52,782
Long-term and Extended Care Facilities	559	0	0	4,651	5,210
School Districts	6,145	0	19	12,489	18,653
Colleges	1,040	0	2	2,870	3,912
Miscellaneous	910	49	2	2,790	3,751

Active Contributors by Group

Group 1
Males other than Fire and Police
29,389

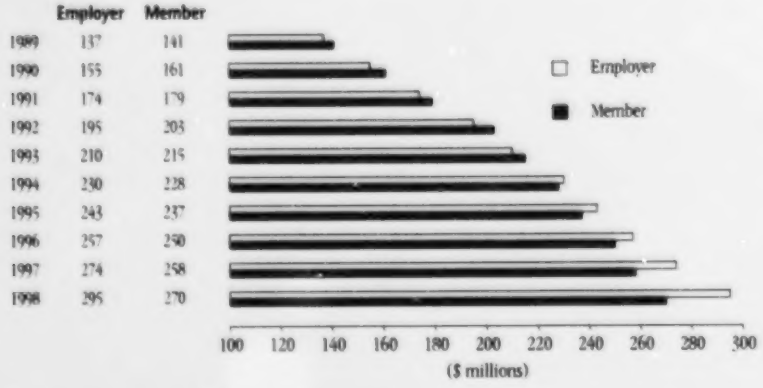
Group 2
Fire and Police
5,462

Group 4
Females other than Fire and Police
76,466

Note: There are also 49
Group 3 – Females
Special Closed Group

Contributions

($ millions)



Note: Total contributors include those for purchases of service.

Total Regular Contributions by Employer Sector as a Percentage

Hospitals, Health Boards and Long-term Care Facilities
52%

Cities, Districts, Towns and Villages and Regional Districts
24%

School Districts
17%

Colleges
4%

Other
3%

Member Services

Termination Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest
- a transfer of the commuted value of the pension benefit to a locked-in registered retirement savings plan or a registered pension plan, or
- a deferred pension.

The number of termination benefits paid in a given year can vary significantly, depending on the employment environment. Historical numbers show that there have been significant fluctuations over the last 10 years, with the last three years being relatively stable.

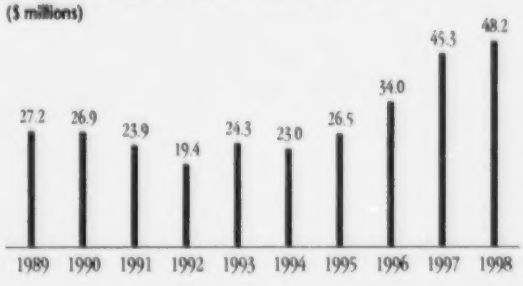
The value of terminations, however, has increased significantly over the last four years, with a 6 per cent increase in 1998. This is mainly as a result of more commuted value benefit payments. Commuted value payments were introduced in 1994; this allowed members to transfer the value to a locked-in Registered Retirement Savings Plan. Typically, commuted values, which represent the net present value of a pension entitlement, are significantly higher dollar values than members' personal accumulated contributions.

If a member leaves the plan and takes a refund of contributions, the refund includes interest. Interest is credited and compounded annually to the member's contribution balance. The balance, including interest, is included in the plan member's annual benefit statement.

The rate of interest is governed by pension standards and pension plan legislation, and is based on average bank five-year personal term deposit rates.

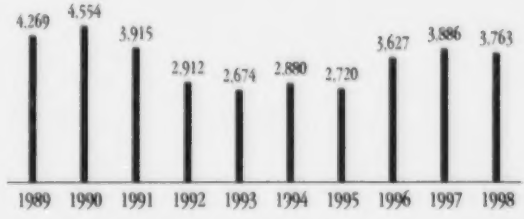
Value of Termination Benefits Paid

($ millions)



Termination benefits paid include only the refund of contributions and commuted value payment options; deferred pensions are included in pension statistics.

Number of Termination Benefits Paid



Termination benefits paid include only the refund of contributions and commuted value payment options; deferred pensions are included in pension statistics.

Annual Rates for Interest Credited to Contribution Balances

1994	6.49%
1995	6.88%
1996	5.47%
1997	4.54%
1998	4.30%

Member Services

Pensions

The total dollar amount of pensions paid and the number of pensioners continue to grow, primarily as a result of the aging member population. The number of pensions granted in 1998 increased 2.5 per cent over the number granted in 1997, with the number of pensioners on payroll increasing 6 per cent.

Pensions are paid at the end of each month, beginning the latest of:

- the month following the month in which the plan member becomes eligible, or
- the month following the month in which the plan member receives the final salary, or
- the month in which the Superannuation Commission receives the member's application.

Full payment is made for the month in which a pensioner dies.

Pensions 1989 – 1998

	Granted During Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ millions)	Inflation Supplements Paid ($ millions)	Special Agreement Supplements Paid ($ millions)	Total ($ millions)
1989	1,434	310	17,315	125.9	31.8	0.1	157.8
1990	1,434	355	18,394	135.2	37.8	0.1	173.1
1991	1,481	382	19,493	145.8	43.0	0.1	188.9
1992	1,578	376	20,695	157.8	50.5	0.1	208.4
1993	1,695	407	21,983	170.9	51.7	0.1	222.7
1994	1,991	418	23,556	188.0	53.9	0.1	242.0
1995	1,964	447	25,073	205.6	53.0	0.1	258.7
1996	2,080	439	26,714	224.0	57.0	0.1	281.1
1997	2,282	502	28,494	245.4	59.1	0.1	304.6
1998	2,340	606	30,228	268.4	61.6	0.2	330.2

Pensions Granted by Type 1989 – 1998

	Normal [1]	Death [1]	Disability [2]	Deferred	Total
1989	1,149	49	130	106	1,434
1990	1,107	43	154	130	1,434
1991	1,187	42	148	104	1,481
1992	1,245	36	168	129	1,578
1993	1,334	62	176	123	1,695
1994	1,588	51	220	132	1,991
1995	1,575	52	200	137	1,964
1996	1,670	59	205	146	2,080
1997	1,815	47	274	146	2,282
1998	1,842	74	243	181	2,340

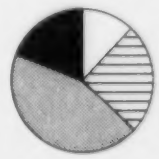
[1] Pensions granted do not include any pension continued to a beneficiary upon the death of a pensioner.
[2] Includes members on long-term disability who became eligible for a regular pension.

Normal Pensions Granted in 1998 – Age at Retirement

(For those whose normal retirement age was 65)
Subdivided by years of service and age at retirement.

Years of Service	55	56 – 59	60 – 64	65	Total
< 10 yrs	44	90	166	127	427
10 – 14	34	60	122	61	277
15 – 19	34	87	172	51	344
20 – 24	30	69	162	42	303
25 – 29	28	51	79	16	174
30 – 34	17	44	39	8	108
35 +	8	12	8	2	30
Total	195	413	748	307	1,663

Percentage of Normal Pensions by Age (Normal Age 65)



- 55 and under, 12%
- 56 – 59, 25%
- 60 – 64, 44%
- 65 and over, 19%

Member Services

Basic pensions have a significant value. The value depends on a number of factors, including the age, salary and service of the member at retirement.

The table to the right shows the average asset value ("present value") of pensions granted during the year. The value represents approximately how much money it would cost to purchase an average basic pension, excluding any indexing benefit, as provided under the Municipal Pension Plan.

Normal Pensions Granted January 1, 1998 to December 31, 1998

(Combination of those whose retirement age was 60 and 65)
Subdivided by years of service.

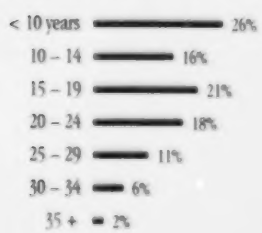
Years of Service	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension (Single Life Option)	Average Present Value of Pensions	Total Present Value of Pensions ($ millions)
< 10 yrs	431	$40,000	$ 3,000	$ 36,000	$ 15.5
10 – 14	280	41,000	7,000	83,000	23.2
15 – 19	348	43,000	10,000	120,000	41.8
20 – 24	320	44,000	14,000	165,000	52.8
25 – 29	226	52,000	23,000	287,000	64.9
30 – 34	204	57,000	34,000	412,000	84.0
35 +	33	55,000	33,000	387,000	12.8
Total	1,842	n/a	n/a	n/a	$295.0
All Pension Average	n/a	$45,000	$13,000	$160,000	n/a

Normal Pensions Granted in 1998 – Age at Retirement

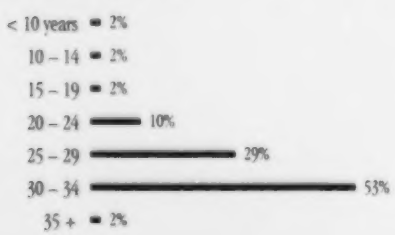
(For those whose normal retirement age was 60)
Subdivided by years of service and age at retirement.

Years of Service	50	51 – 54	55 – 59	60	Total
< 10 yrs	–	–	3	1	4
10 – 14	1	–	1	1	3
15 – 19	1	–	2	1	4
20 – 24	1	2	8	6	17
25 – 29	4	26	20	2	52
30 – 34	5	36	47	8	96
35 +	–	–	2	1	3
Total	12	64	83	20	179

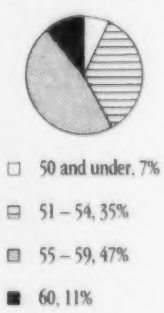
Percentage of Normal Pensions by Years of Service (Normal Age 65)



Percentage of Normal Pensions by Years of Service (Normal Age 60)



Percentage of Normal Pensions by Age (Normal Age 60)



Member Services

Other:

Portability Provisions

Portability is the provision that allows the carrying of some pension rights from one plan to another. For instance, members of the Municipal Pension Plan may carry their years of pensionable service and contributions to a new place of employment and become a member of that new plan if there is a portability agreement with the new plan. Employers which allow a transfer of pension rights to other employers or pension plans are referred to as "reciprocal employers."

All plan members with contribution history in another pension plan are encouraged to inquire about portability agreements with the Municipal Pension Plan.

In 1998, there were 52 reciprocal transfers from other pension plans totalling $3.2 million and 42 transfers out totalling $1.6 million.

Purchase of Additional Service

Additional service may be recognized as purchasable. Such service may include:

- approved leaves of absence
- arrears contributions
- non-contributory service, and
- reinstatement of refunded contributions.

The value of purchases decreased by 10 per cent from 1997 to 1998, primarily because of declines in the number of reinstatements.

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases ($ thousands)	
	1998	1997	1998	1997
Reinstatement of Refunded Contributions	925	1,174	$7,985	$10,463
Non-contributory Service	382	272	3,699	4,216
Other	1,310	743	4,181	2,960
Total	2,617	2,189	$15,865	$17,639

Plan Communications

The board is making every effort to ensure changes and improvements to the plan are communicated to all plan stakeholders. Recent publications include an annual report summary and expanded topics in *Pensionfacts*; a revised plan member guide is under development.

Financial Statements

Report of the Auditor General of British Columbia

To the Superannuation Commissioner, Trustee, and

To the Minister of Finance & Corporate Relations, Province of British Columbia:

I have audited the statement of net assets available for benefits of the *Municipal Pension Plan* as at December 31, 1998 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Superannuation Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Municipal Pension Plan* as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

George L. Morfitt

Victoria, British Columbia
May 14, 1999

Financial Statements

BRITISH COLUMBIA

MUNICIPAL PENSION PLAN

ADMINISTRATOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan were prepared by the Superannuation Commission, the administrator of the plan. The commission is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Superannuation Commission maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the plan in accordance with generally accepted auditing standards. The resulting audit opinion is set out in the Report of the Auditor General attached to these financial statements.

John W Cook

JOHN W. COOK, F.C.I.A.,
Superannuation Commissioner,
Trustee

P. LOUISE YOUNG, C.A.,
Executive Director, Plan Finance
Superannuation Commission

May 14, 1999

Superannuation Commission
Office of the Commissioner
Mailing Address:
PO Box 9460 Stn Prov Govt
Victoria BC V8W 9V8
Telephone: (250) 387-8201
Facsimile: (250) 387-4199
Location:
2995 Jutland Road, Victoria

Financial Statements

MUNICIPAL PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

December 31	1998	1997
ASSETS		
Investments (Note 3)	$12,205,814	$11,000,625
Receivables		
Members' contributions	12,611	18,648
Employers' contributions	12,851	19,302
Accrued investment income	660	604
Other	44	232
	26,166	38,786
Prepaid expenses	977	960
Cash	7,691	1,786
Total Assets	12,240,648	11,042,157
LIABILITIES		
Accounts payable and accrued expenses	13,443	15,302
Total Liabilities	13,443	15,302
NET ASSETS AVAILABLE FOR BENEFITS	$12,227,205	$11,026,855

Obligations for Accrued Pension Benefits for Accounting Purposes (Note 7)

The 12 accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.,
Chair, Municipal Pension Board,
Superannuation Commissioner,
Trustee

P. Louise Young, C.A.,
Executive Director, Plan Finance
Superannuation Commission

Financial Statements

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 1998	Totals 1997
INCREASE IN ASSETS						
Net investment income (Note 4)	$ 874,384	$ 26,888	$ 152,182	$ -	$ 1,053,454	$ 1,282,432
Contributions (Note 5)						
Members	222,207	5,952	41,101	339	269,599	258,307
Employers	240,862	7,266	19,956	27,494	295,578	273,589
	463,069	13,218	61,057	27,833	565,177	531,896
Transfers from other plans	3,201	-	(3)	-	3,198	6,746
Total Increase in Assets	1,340,654	40,106	213,236	27,833	1,621,829	1,821,074
DECREASE IN ASSETS						
Pension benefits paid						
Contributory	268,422	-	-	-	268,422	245,377
Indexing supplements and other	61,622	-	-	-	61,622	59,106
Supplemental pensions (Note 10)	-	-	-	145	145	73
	330,044	-	-	145	330,189	304,556
Termination benefits paid	37,677	1,767	8,321	434	48,199	45,338
Transfers to other plans	1,415	-	192	-	1,607	3,979
Pensioner group benefits (Note 10)	-	-	-	27,126	27,126	25,209
Administration costs (Note 9)	14,230	-	-	128	14,358	10,631
Total Decrease in Assets	383,366	1,767	8,513	27,833	421,479	389,713
INCREASE IN NET ASSETS BEFORE TRANSFERS	957,288	38,339	204,723	-	1,200,350	1,431,361
Account transfers (Note 6)	(57,064)	(18,724)	75,788	-	-	-
INCREASE IN NET ASSETS	900,224	19,615	280,511	-	1,200,350	1,431,361
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	8,981,503	266,794	1,778,558	-	11,026,855	9,595,494
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 9,881,727	$ 286,409	$ 2,059,069	$ -	$ 12,227,205	$ 11,026,855

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The Municipal Pension Plan (the plan) is governed by the *Pension (Municipal) Act* (the act) and related regulations. The following brief description of the plan is provided for general information only. For more information refer to the act.

a) General

The plan is a contributory defined benefit pension plan open to eligible employees of a municipality, hospital district, school district, or other employer to which the act applies.

b) Roles and Responsibilities

The Superannuation Commissioner is responsible for administering the act and for administering the Municipal Pension Plan and serves as trustee for the plan. The Municipal Pension Fund is the trust fund in which contributions accumulate and are invested to pay current and future pension benefits. In carrying out his duties, the commissioner is supported by, and acts as chief executive officer to, the Superannuation Commission, a division of the Ministry of Finance and Corporate Relations of British Columbia.

The Municipal Pension Board was established under the act to make recommendations to government regarding, among other things, the act and its regulations, changes in benefits, funding policy, contribution rates and the administrative budget of the commission. The board is responsible for preparation of the annual report of the plan, for reviewing and making recommendations to the Ministry of Finance and Corporate Relations on investment policy, and for providing direction to the commissioner on the application of plan rules. The commissioner is chair of the board.

The commissioner, as trustee, places funds available for investment with the Minister of Finance and Corporate Relations. The Office of the Chief Investment Officer, of the Ministry of Finance and Corporate Relations, is responsible for investment management.

c) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Pension Benefits (continued)

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least two years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service equalling 90 or more (age 50 or older and age plus service equalling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings is based on the member's highest five-year average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is .7% of the lesser of YMPE or the HAS, for each year of the member's pensionable service since January 1, 1966 (when CPP was introduced).

Increases to pension payments are provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6).

At January 1, 1998 pensioners received a full CPI increase of 1.6% (1997 – 1.5%).

d) Termination and Portability Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest;
- a transfer of the commuted value of the pension benefit to a locked-in RRSP, or registered pension plan or similar tax-sheltered plan; or
- a deferred pension.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements. Where there are portability arrangements between the Municipal Pension Plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Municipal Pension Plan.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

e) Other Benefits

Supplemental (Note 10), disability and survivor benefits are available under the plan. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefit.

f) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* and is not subject to income taxes, except for any supplemental benefits (Note 10) which are provided in addition to the RPP.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the aggregate financial position of the plan as a separate financial reporting entity, independent of the plan's contributing employers and members.

b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

3. INVESTMENTS (Market Value)

	1998			1997
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 188,405	$ 62,635	$ 251,040	$ 450,713
Canadian Bonds	3,932,986	746,377	4,679,363	3,887,564
Canadian Equities	3,394,769	638,081	4,032,850	3,885,336
U.S. Equities	914,163	171,188	1,085,351	1,016,920
International Equities	980,302	184,692	1,164,994	1,066,990
Mortgages	312,032	53,386	365,418	221,079
Real Estate	430,050	81,121	511,171	424,265
Private Placements	115,627	-	115,627	47,758
	$10,268,334	$1,937,480	$12,205,814	$11,000,625

Pension plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the Office of the Chief Investment Officer. Each unit gives its holder a proportionate share in the equity of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East. Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets.

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

4. INVESTMENT INCOME

	1998			1997
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 12,118	$ 352	$ 12,470	$ 13,647
Canadian Bonds	218,271	104,894	323,165	269,110
Canadian Equities	57,596	(55,405)	2,191	455,799
U.S. Equities	19,978	260,189	280,167	240,198
International Equities	18,660	204,498	223,158	59,971
Mortgages	16,680	1,964	18,644	9,727
Real Estate	20,852	29,029	49,881	59,263
Private Placements	1,352	1,254	2,606	561
	$365,507	$546,775	$912,282	$1,108,276
Investment Management Costs			(11,010)	(9,991)
Net Investment Income			901,272	1,098,285
Less: Retirement Annuity Account Income Allocation			(26,888)	(25,267)
			$874,384	$1,073,018

The Retirement Annuity Account is allocated a share of investment income based on the net earned rate of the fund.

	1998			1997
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Inflation Adjustment Account				
Short-term	$ 2,496	$ 118	$ 2,614	$ 2,501
Canadian Bonds	39,715	12,640	52,355	42,600
Canadian Equities	10,611	(14,429)	(3,818)	78,236
U.S. Equities	3,624	47,101	50,725	40,675
International Equities	3,377	36,712	40,089	10,384
Mortgages	2,851	339	3,190	1,658
Real Estate	3,735	5,238	8,973	9,840
	$66,409	$ 87,719	$ 154,128	$ 185,894
Investment Management Costs			(1,946)	(1,747)
Net Investment Income			$ 152,182	$ 184,147
Total Investment Income			$1,066,410	$1,294,170
Total Investment Management Costs			(12,956)	(11,738)
Total Net Investment Income			$1,053,454	$1,282,432

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

4. INVESTMENT INCOME (continued)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the Ministry of Finance and Corporate Relations, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	1998					1997
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
					($ Thousands)	
Members' contributions						
Regular	$212,120	$ -	$40,469	$ -	$252,589	$239,568
Special agreement	-	5,953	-	-	5,953	5,833
Arrears	1,031	(1)	150	-	1,180	1,061
Purchase of service	1,096	-	36	-	1,132	879
Leave of absence	356	-	65	-	421	274
Reinstatement	7,604	-	381	-	7,985	10,463
Supplemental benefits	-	-	-	339	339	229
	$222,207	$ 5,952	$41,101	$ 339	$269,599	$258,307
Employers' contributions						
Regular	$236,084	$ -	$19,597	$ -	$255,681	$235,626
Special agreement	-	7,256	-	-	7,256	7,020
Arrears	1,952	-	227	-	2,179	1,413
Purchase of service	2,489	10	68	-	2,567	3,337
Leave of absence	337	-	64	-	401	212
Reinstatement	-	-	-	-	-	-
Supplemental benefits	-	-	-	27,494	27,494	25,981
	$240,862	$ 7,266	$19,956	$27,494	$295,578	$273,589
Total Contributions	$463,069	$13,218	$61,057	$27,833	$565,177	$531,896

MUNICIPAL PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
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6. ACCOUNT TRANSFERS

	1998			1997		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
	($ Thousands)					
Present value of current indexing supplements	$ 41,080	$ -	$(41,080)	$ 35,031	$ -	$(35,031)
Indexing of deferred pensions	1,283	-	(1,283)	1,175	-	(1,175)
Excess interest	(118,142)	-	118,142	(121,058)	-	121,058
Pensions purchased from Retirement Annuity Account	18,637	(18,637)	-	20,633	(20,633)	-
Other	78	(87)	9	60	(71)	11
	$(57,064)	$(18,724)	$ 75,788	$(64,159)	$(20,704)	$ 84,863

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account is funded through a portion of ongoing contributions from employers and members (Note 8), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the Inflation Adjustment Account to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the Inflation Adjustment Account to the Basic Account.

Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately $2.9 billion of assets for 1998, $2.6 billion for 1997). The excess interest rate of return is determined by taking the difference between the actual market rate of return and the rate of return used by the actuary (7.25%) in valuing the plan's liabilities. The actual rate of return is based on a five-year average. The calculated excess interest rate of return for 1998 was 4.1% (1997 – 4.5%). Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

A separate Retirement Annuity Account is maintained to record extra contributions by employers and members under special agreements. Monies are transferred at retirement from the Retirement Annuity Account to the Basic Account as additional pensions are purchased.

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7. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES

For accounting purposes, the plan actuary values pensions as at, and pension liabilities accrued to, the financial statement date. An actuarial valuation is performed every three years. The latest valuation was made as of December 31, 1997, by Eckler Partners Ltd. At that valuation, net assets were $7.8 billion (1994 - $5.5 billion) and liabilities for accrued pension benefits were $8.1 billion (1994 - $6.6 billion), resulting in a net deficiency of $.3 billion (1994 - $1.1 billion).

The present value of liabilities for accrued basic pension benefits was determined using the projected benefit method prorated on service. Accrued basic pension benefits include all indexing granted to the date of valuation, but not future indexing. The underlying basis for the net asset valuation is a five-year investment market smoothing. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.25%
- annual salary escalation rate 4.75%

The 1997 valuation results were extrapolated to December 31, 1998 using the same long-term assumptions. The extrapolated net assets are $8.55 billion and the liabilities are $8.87 billion, with a resulting extrapolated deficit of $.32 billion.

In the short term, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation. While the actual experience is recognized when the complete actuarial valuation takes place every three years, these variances can limit the accuracy of short-term extrapolations made between valuation dates. The next formal valuation will be as at December 31, 2000, for inclusion in the December 31, 2001 financial statements.

8. FUNDING

a) Contributions

Basic Account

Members contribute to the Basic Account 5.0% of salaries up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($36,900 in 1998), and 6.5% of salaries above that.

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8. FUNDING (continued)

a) Contributions (continued)

Basic Account (continued)

Employers contribute to the Basic Account at varying rates depending on the mix of employees in the group rate classifications specified by the plan, less amounts allocated to the Supplemental Benefits Account (1998 – 6,417,152; 1997 - $6,434,071) (see Note 10).

Inflation Adjustment Account and Supplemental Benefits Account

Members contribute 1.0% of salaries to the Inflation Adjustment Account. Employers contribute 1.0% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (1998 - $21,076,608; 1997 - $19,547,626) (see Note 10).

Retirement Annuity Account

Some employers have special agreements with members by which both make extra contributions to increase the members' pensions. These contributions are credited to the Retirement Annuity Account; they are transferred at retirement to the Basic Account as additional pensions are purchased with the accumulated monies.

b) Actuarial Valuation for Funding Purposes

An actuarial valuation of the plan's assets and pension obligations is performed every three years to determine an appropriate combined employer and member contribution rate to fund the plan. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on a level contribution method. Using this method, the contribution rate consists of two elements:

- a level rate which will fully pay for benefits earned by typical new entrants to the plan; and
- a level rate which will maintain the plan's unfunded actuarial liability (UAL) as a constant percentage of employer payroll, assuming future contributions are also made at the above rate.

The most recent actuarial valuation for funding purposes was prepared as at December 31, 1997. This valuation disclosed an unfunded liability for basic pension benefits of $.55 billion (1994 - $1.31 billion), assuming future contributions at the

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8. FUNDING (continued)

b) Actuarial Valuation for Funding Purposes (continued)

existing statutory rates. The decrease is largely a result of excess investment returns and lower than assumed general salary increases.

The changes in the unfunded actuarial liability between the 1994 and 1997 valuations are as follows:

	($ Billions)
Unfunded actuarial liability as at December 31, 1994	$1.31
Interest on unfunded liability	.31
Net changes in actuarial assumptions	.04
Net experience (gains) and losses	(1.11)
Unfunded actuarial liability as at December 31, 1997	.55

As a result of this valuation, the actuary's calculated level contribution rate for basic pension benefits was 0.23% of employer payroll higher than the existing statutory rates. The rate increase has not been implemented, as discussed in Note 8(c).

The following table shows a key indicator of the financial health of a pension plan, the UAL as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the statutory rates in place at the time rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (b)	Unfunded Actuarial Liability (UAL) (c)	Covered Payroll (d)	UAL as a Percentage of Payroll (c/d)
	($ Billions)				
1991	7.94	9.35	1.41	2.85	50%
1994	10.13	11.44	1.31	3.64	36%
1997	12.65	13.20	.55	3.92	14%

c) Funding Policy

July 1994 changes to the act affirmed the level contribution method as the funding policy for the plan. This policy calls for any increases in the UAL as a percentage of employer payroll to be amortized, by way of an increase in employer contributions, over not more than 15 years. However, the legislation also requires, on a transitional basis, that no increase in employer contributions is to occur, as long as the plan's financial experience remains the same or continues to improve from one

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8. FUNDING (continued)

c) Funding Policy (continued)

valuation to the next, based on the UAL as a percentage of employer payroll (see table in Note 8(b)).

If a surplus arises, it may be amortized, by a reduction in employer contributions, over not less than 15 years.

As noted in the final column of the table in Note 8(b), the plan's financial status improved at the last valuation and accordingly, the statutory group contribution rates have not been increased.

9. RELATED PARTY TRANSACTIONS

a) Administration Costs

Administration costs include general administration costs and actuarial fees. General administration costs incurred by the Superannuation Commission are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. General administration costs include all salaries, Municipal Pension Board expenses, and other operating and administration costs.

b) Investment Management Costs

The Office of the Chief Investment Officer (OCIO) has statutory responsibility for managing investments on behalf of the plan and uses internal and external investment managers for this purpose. Total investment management fees for 1998 were $13 million. Of this amount, $1.4 million was charged for OCIO's internal investment management services (1997 - total fees $11.74 million; internal management services $1.43 million).

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account provides for the payment and funding of supplemental benefits, such as contributions and benefits which exceed Revenue Canada limits, and group medical, extended health and dental benefits for pensioners.

Medical, dental and extended health coverage for pensioners are fully funded by employer contributions.

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11. YEAR 2000 SYSTEMS ISSUE

The Year 2000 systems issue arises because many date sensitive computer systems use two digits rather than four to identify a year and, therefore, may not correctly recognize the Year 2000. As a result, if all related system problems are not fully identified and fixed, the impact on operations and financial reporting could range from minor errors to system failures and could occur before, on or after January 1, 2000. The Superannuation Commission, whose computer systems support the administration of the Municipal Pension Plan, is making all reasonable efforts to ensure that the Year 2000 issue is addressed, including working with other government departments, employers and suppliers to do so.

The commission has reviewed all its computer systems for year 2000 problems and work is well underway to modify or replace all systems which are not already year 2000 ready. The two main computerized systems that support pension administration are the pension payment system and the contributor system. The pension payment system was designed with four digit years, with the Year 2000 in mind. Therefore problems are not anticipated with this system. However, as a precautionary measure, this system is also being tested. The contributor system is on schedule for replacement with a Year 2000 ready system in 1999, and the existing system has been modified and tested to be Year 2000 ready as a contingency measure.

The commission is making every effort to identify and resolve the Year 2000 issue. However, because of the pervasive nature of the problem, it is not possible to be absolutely certain that all aspects of the problem affecting the commission, including those related to the efforts of employers, suppliers or other third parties will be resolved. The commission, however, is developing contingency plans to ensure that critical services continue, such as the payment of pensions, should an unanticipated system failure occur.

12. COMPARATIVE INFORMATION

Certain prior year's amounts have been reclassified to be consistent with the current year's presentation.